Will We Have a Comprehensive Discussion on Replacing Fannie and Freddie?

“I think this hearing and these bills are a mistake. They're out of order. And, I think we need to have a debate about what can replace Fannie Mae and Freddie Mac in the future.” - Representative John Campbell (R-CA)

“Instead of political grandstanding, we need a practical plan to actually fix the problem, put an end to taxpayer bailouts and ensure that the American dream of homeownership remains accessible for middle class families.” - Representative Gary Peters (D-MI)

Washington – Today, the House Financial Services’ subcommittee on Capital Markets and Government Sponsored Enterprises (GSEs) held a markup on the future of Fannie Mae and Freddie Mac. However, instead of debating the merits of viable, comprehensive plans for reform and replacement, the subcommittee brought forward a series of piecemeal bills that sought to make changes to the two gigantic, failing GSEs. Congressman John Campbell (R-CA), the author, along with lead sponsor Rep. Gary Peters (D-MI), of H.R. 1859, the Housing Finance Reform Act, argued that the process today was completely backwards and encouraged Financial Services Committee leadership to, instead of trying to adjust the current system, hold a series of hearings on putting into a place a completely new mechanism for housing finance. Currently, three bills that propose such a comprehensive approach to reform exist and await consideration. Please find attached a brief synopsis of each along with a comparison grid for easy reference.

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A COMPARISON OF COMPREHENSIVE HOUSING FINANCE REFORM LEGISLATION

Campbell-Peters: H.R. 1859, the Housing Finance Reform Act

• End of Fannie Mae and Freddie Mac. Permanently winds down the failed GSEs, and revitalizes and strengthens the housing finance system through an entirely new system administered by numerous private, independently regulated associations with limited charters competing in a structure that intrinsically preserves the 30-year fixed-rate loan.
• Layers of Private Capital Protecting the Taxpayer. Provides for private investment to not only supply the capital necessary to fund mortgage loans, but also requires that private capital absorb losses so that taxpayers are not on the hook for any losses or failures.
• Flexible and Stable Housing Market Moving Forward. Preserves a limited government role to protect the taxpayer, but maximizes the potential of private investment and utilizes market forces to set up a long lasting, stable, and safe housing finance system that ensures availability of the 30 year fixed-rate mortgage.

Miller-McCarthy: H.R. 2413, the Secondary Market Facility for Residential Mortgages Act

• A Single, Government-Owned Entity. Replaces Fannie Mae and Freddie Mac with a single, government-owned corporation regulated by a politically appointed commission, making permanent and expanding the existing role of the federal government in the housing market.
• A System Dependant on Taxpayer Support. The “facility” created under the bill is a wholly-owned corporation of the U.S. Government. In this system, taxpayer dollars are being relied upon and spent from day 1 to capitalize and operate the housing finance system.
• Institutes Complete Government Control. Creates a system in which politicians hold authority over market forces and run the housing finance system, much in the same way that Fannie Mae and Freddie Mac have been operated.

Hensarling: H.R. 1182, the GSE Bailout Elimination and Taxpayer Protection Act

• Removes Traditional Safeguards in Housing Finance. Permanently winds down Fannie Mae and Freddie Mac without replacing them with a regulated system. Sets up an implicit and unlimited guarantee of the housing market and removes protections and requirements for market participants to reserve capital in the case of failure or economic downturn.
• Changes the Market Composition of Available Products. Analysts predict that 30-year fixed-rate mortgages will rise to a higher rate than is currently available, thereby all but eliminating this product, and borrowers will be encouraged to choose adjustable rate loan products.
• Reliance on Investors Assuming Credit Risk. Relies on investors to take on all credit risk in order to make purchases in the secondary market. Expects investors that currently are not willing to take on this risk to modify their behavior going forward.